

KFMS MEMORANDUM

TO: KF Core Brand Agencies

FROM: Don Miceli
Kathy Riordan

DATE: August 9, 1995

SUBJECT: *Hearst Publications Usage For 1996*

cc: Rita Mahan
FyI

Purpose

The purpose of this note is to solicit your assistance in significantly reducing Kraft Foods' activity with the *Hearst Corporation* in 1996.

Background

Over the last several weeks, we have been negotiating the 1996 advertising rates with the major publishing companies.

After several meetings with Hearst Senior Management, we have reluctantly concluded that Hearst's final proposal is not consistent with Kraft's cost containment objectives. As widely reported, Hearst has announced circulation reductions in virtually all of their publications. For the 3 books that Kraft Foods uses the most, the circulation rate base declines are:

MAGAZINES	CIRCULATION RATE BASE		% CIRCULATION REDUCTION
	<u>FROM</u>	<u>TO</u>	
<i>Good Housekeeping</i>	5,000M	4,500M	-10%
<i>Redbook</i>	3,200M	2,800M	-12.5%
<i>Country Living</i>	1,800M	1,600M	-11%

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While Hearst has declared these rate base declines effective with November '95, they have not reduced the rates commensurately. In fact, they have put forth a plan which calls for rate increases that range from flat to +5 % versus '95. Given the fact that all PM Companies intend to reduce their usage of Hearst, our opening contract levels will reflect the full +5% rate increase. The combination of the rate increase and the circulation reduction creates a circulation CPM increase of 17% to 21% for the books traditionally used by Kraft Foods.

Hearst states that they are eliminating "marginal readers" with these cuts, but, also that these actions will not affect total readership levels. In a literal sense, MRI audience reports will not reflect the circulation declines during 1996 due to lag effects on reporting, and once reported, statistical reliability factors may not capture the true impact of these cuts. We believe that we should view a circulation reduction in the same way we view a rate increase, when assessing the year-to-year cost/value relationship of Hearst's magazines.

There are a few other deal inhibitors in Hearst's final offer which will be discussed at our '96 Magazine Review Presentation that will be given next month. Because of these factors, Kraft Foods will be trying to move as many pages as possible to other publications whose rate structures are more attractive.

ACTION BY BRAND AGENCIES

- Brands developing magazine schedules using the *Women's Service* field should develop their lists without the use of *Good Housekeeping* and *Redbook*. It is our belief that there are enough other quality publications in this field in which to advertise. Therefore, alternative selections should have no significant impact on reach. In addition, increasing our continuity in fewer titles may in fact enhance the readers' exposure to your brand and strengthen the overall print plan.

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If there are circumstances that legitimately require a brand to run in either of these two books, then the agency must review the rationale with the KF Planning Manager and Bobbie Asano. In these cases, we are requesting that these brands reduce their schedule in '96 by at least one page in each book versus '95 levels.

- Brands considering any other Hearst title should attempt to use an alternative selection. If a commensurate plan can not be attained, then usage of that magazine will be allowed. However, we will require that these brands reduce their schedules by at least one page versus their '95 plan in that title. Again, the goal here is reduce usage and share for Hearst in the magazine field. A review with the KF Planning Manager and Bobbie Asano will be required.

SUMMARY/NEXT STEPS

We are sorry that these actions are required. However, we feel strongly that magazines which have been more aggressive in helping us control costs should receive our primary support.

You will be receiving our '96 Planning rates with the issuance of the 1996 Planning Guide document later this month as well as through the new *Print Tracking System* ("Lotus Notes"). In addition, we will be presenting the results of the magazine negotiations in early September.

If you have any questions, please give us a call.

cc:	B. Asano	K. Dyer - Y&R	bcc:	R. Simons -PM
	E. Bayer	S. Kruse		R. Synder - PM
	D. Braun	D. Spencer		J. Hanrahan - LB
	R. Czerepkowski	J. Tessaro		
	B. Singer			
	S. Wisniewski			

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